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FM AMEMBASSY BONN

TO RUEHC/SECSTATE WASHDC IMMEDIATE 0676

INFO RUEHMO/AMEMBASSY MOSCOW 0997

RUEHLD/AMEMBASSY LONDON 9633

RUEHRO/AMEMBASSY ROME 7309

RUEHROC/AMCONSUL MILAN 0361

RUFHFR/AMEMBASSY PARIS 0932

RUEHBS/AMEMBASSY BRUSSELS 9236

RUDKGPO/AMEMBASSY THE HAGUE 1661

BT

C O N F I D E N T I A L BONN 19679 COMBINED SECTION

E.O. 12065: GDS 10/5/87 (YORK: CHARLES T.) OR-E

TAGS: ENRG, EEW, UR, GE

SUBJECT: SOVIET GAS PIPELINE: DISCUSSIONS WITH RUHRGAS

REF: STATE 264968

1. (CONFIDENTIAL - ENTIRE TEXT).

2. SUMMARY: DURING VISIT TO THE RUHRGAS COMPRESSOR STATION ON THE FRG-CZECH BORDER, EMBASSY ENERGY OFFICER LEARNED THAT RUHRGAS DOES NOT EXPECT PRICE NEGOTIATING SESSION IN MOSCOW ON OCTOBER 8 TO PRODUCE AGREEMENT. RUHRGAS EXPRESSED CONCERN THAT FRANCE WOULD AGREE TO GAS PRICES IN UPCOMING TALKS WITH ALGERIA WHICH WOULD BE HIGH AND THEREBY MAKE PRICE AGREEMENT ON THE SOVIET DEAL MORE DIFFICULT. FINALLY, THE NEAR COMPLETION AND NEED TO AMORTIZE THE COST OF THE MEGAL GAS PIPELINE ACROSS

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State Dept. review completed

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GERMANY TO FRANCE - A LINE JOINTLY OWNED BY RUHRGAS AND GAZ DE FRANCE - WOULD APPEAR TO BE A POWERFUL INCENTIVE FOR THESE FIRMS TO REACH AGREEMENT WITH THE SOVIETS.
END SUMMARY.

3. PRICES -- A RECENT TRIP BY ENERGY OFFICER TO THE RUHRGAS COMPRESSOR STATION ON THE FR-CZECH BORDER AT WAIDHAUS PROVIDED AN OPPORTUNITY TO DISCUSS GAS PRICES AND THE OCTOBER 8 PRICE TALKS IN MOSCOW WITH RUHRGAS CONTACTS. RUHRGAS CONTINUES TO BE WORRIED ABOUT TAKING SO LARGE A VOLUME OF GAS AT A HIGH PRICE AND THEREBY SEEING THEIR AVERAGE PRICE FOR IMPORTED GAS CLIMB DURING A PERIOD OF WEAK GAS DEMAND.

4. THEY ARE LOOKING AT THE FORTHCOMING MITTERAND TRIP TO ALGIERS WITH TREPIDATION. THEIR CONTACTS IN GAZ DE FRANCE HAVE EXPRESSED CONCERN THAT MITTERAND WILL AGREE TO A HIGH PRICE FOR IMPORTED ALGERIAN GAS AS A MEANS TO IMPROVE BILATERAL RELATIONS. THE SOVIETS ARE CERTAIN TO LEARN OF ANY FRENCH-ALGERIAN SETTLEMENT AND ARE EXPECTED TO DEMAND A SIMILARLY HIGH PRICE. TO DATE, RUHRGAS HAS BEEN ABLE TO DEFEND TO THE SOVIETS THE HIGH PRICE IN THEIR CONTRACT WITH NORWAY ON THE BASIS OF SECURITY OF SUPPLY AND THE RELATIVELY LOW VOLUME INVOLVED (2-3 BCM/YR.). THEY BELIEVE A HIGH FRENCH SETTLEMENT WILL WEAKEN THE LINE OF ARGUMENTATION THAT THE NORWEGIAN CONTRACT IS UNIQUE AND THAT SUCH A FRENCH-ALGERIAN SETTLEMENT WILL SIGNAL A NEW GENERALIZED ROUND OF GAS PRICE INCREASES.

5. TACTICS -- RUHRGAS SEES THE PRESSURE NOW SHIFTING TO THE SOVIET SIDE IN THEIR GAS PRICE TALKS. NO AGREEMENT IS EXPECTED FROM THE OCTOBER 8 SESSION IN MOSCOW, AND, ACCORDING TO OUR CONTACTS, RUHRGAS SEES NO REASON TO RUSH THINGS. THE SOVIETS HAVE SHOWN THEIR HAND BY SIGNING EQUIPMENT CONTRACTS, AND FOR TACTICAL REASONS RUHRGAS IS WILLING TO SIT TIGHT AND LET THINGS HEAT UP A BIT MORE. THEY BELIEVE THE SOVIETS WANT AN AGREEMENT BY THE TIME OF THE BREZHNEV VISIT, AS IT WOULD APPEAR DOES BONN. THERE DOES NOT APPEAR TO HAVE BEEN ANY DIRECT GERMAN GOVERNMENT PRESSURE ON RUHRGAS TO SIGN

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AS YET, BUT IT HAS BEEN MADE CLEAR TO THE FIRM THAT BONN WOULD BE PLEASED IF THE DEAL WERE TO BE CONCLUDED FORTHWITH. ONE CONTACT EXPLAINED HOW THE FIRM COULD RESIST ANY UNDUE PRESSURE FROM BUNN (CAN THEY GUARANTEE THAT WE CAN SELL THE GAS AT ANY PRICE?) BUT DID NOT SAY THAT THESE ARGUMENTS HAD AS YET BEEN MADE.

6. RELATION OF RUHRGAS PRICES TO OTHER EUROPEAN CUSTOMERS -- WE HAVE LITTLE DIRECT EVIDENCE ON THIS POINT, BUT HAVE BEEN TOLD THAT PRICE IS BEING DISCUSSED SEPARATELY WITH EACH PURCHASING ENTITY. IT SEEMS LIKELY THAT RUHRGAS WILL BE THE FIRST TO SETTLE AND THAT THEIR PRICE WILL SERVE AS A "MARKER" FOR OTHER PRICE DISCUSSIONS. DEVIATIONS FROM ANY RUHRGAS AGREEMENT ARE NOT LIKELY TO BE GREAT, AND WILL PROBABLY BE BASED ON RECOGNIZABLE LOCAL CONSIDERATIONS.

7. OPAQUE PRICING -- RUHRGAS LAMENTED THE PUBLICITY SURROUNDING THEIR RECENT NORWEGIAN CONTRACTS, AS WELL THEY MIGHT. OUR CONTACTS WOULD NOT TALK PRICE IN EXPLICIT TERMS, BUT CONTINUED TO SAY THAT THEY WERE SEEKING A PRICE FROM THE SOVIETS WHICH WOULD BE TIED TO A BASKET OF FUELS USED IN GERMANY. THEY HOPE TO INCLUDE NOT ONLY LIGHT AND HEAVY HEATING OIL IN SUCH A BASKET, BUT ALSO COAL, ELECTRICITY AND EVEN LIGNITE. BY USING SUCH A BASKET TOGETHER WITH A MULTIPLIER OF LESS THAN 1,

THEY HOPE TO KEEP NATURAL GAS PRICES AT THE RETAIL LEVEL JUST AT OR SLIGHTLY BELOW THE PRICES OF COMPETING FUELS AND THEREBY AVOID BEING PRICED OUT OF THE MARKET. (GAS PRICES CIF TO THE GERMAN BORDER, AS MOST GERMAN CONTRACTS ARE WRITTEN, ARE MARKED UP ABOUT 20 PERCENT TO COVER INTERNAL TRANSMISSION COSTS AND THE IMPORTER'S MARGIN BEFORE SALE TO MUNICIPAL UTILITIES. UTILITIES IN TURN MARK THE GAS UP ABOUT 100 PERCENT PRIOR TO DELIVERY TO INDUSTRIAL CUSTOMERS. HOUSEHOLDS PAY LESS AS THE TARIFF FOR SMALL QUANTITIES IS REGULATED BY THE MUNICIPALITY.)

8. OUR RUHRGAS CONTACT CAUTIONED AGAINST PUTTING TOO MUCH WEIGHT ON ANY PUBLISHED PRICE WITH THE SOVIETS,

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NOTING THAT SUCH A PRICE COULD DIFFER WIDELY FROM THE ACTUAL PRICE PAID, FOR EXAMPLE BECAUSE OF THE USE OF AN INDEX CLAUSE SUCH AS THAT DESCRIBED ABOVE. OUR CONTACT CONCEDED, HOWEVER, THAT THE PUBLICATION OF PRICES, PARTICULARLY IF HIGH, HAD OPTICAL SIGNIFICANCE AT A MINIMUM, AND AS IN THE FRENCH-ALGERIAN CASE, COULD "CAUSE REAL TROUBLE."

9. MEGAL PIPELINE -- TWO LINES RUN WESTWARD FROM THE FRG-CZECH BORDER AT WAIDHAUS. ONE IS OWNED BY RUHRGAS AND CARRIES THE GAS DELIVERED UNDER THE PRESENT 11 BCM/YR. CONTRACT. THE OTHER LINE IS OWNED BY MEGAL GMBH AND RUNS WESTWARD TO THE FRENCH BORDER BETWEEN ZWEIBRUCKEN AND PIRMASENS. THE MEGAL LINE WAS ORIGINALLY BUILT TO HANDLE GAS FROM THE TRIANGULAR IRAN-SOVIET-WEST EUROPEAN DEAL, IGAT. THE MEGAL PIPELINE IS IN PLACE, PARALLEL TO THE RUHRGAS LINE, AND IS PARTIALLY OPERATIONAL. (PIPE AND SWITCHING APPEAR COMPLETE, BUT THE FINAL COMPRESSOR STATIONS DO NOT COME ON LINE UNTIL EARLY 1982.) MEGAL IS A JOINT VENTURE OF RUHRGAS AND GAZ DE FRANCE, AND THE LINE AND COMPRESSOR STATIONS HAVE BEEN CONSTRUCTED BY PIPELINE ENGINEERING, A RUHRGAS SUBSIDIARY. (THE MEGAL STATION AT WAIDHAUS USES TWO INGERSOLL-RAND JET DERIVATIVE COMPRESSORS.)

10. THE EXISTENCE OF SUCH A LINE MEANS THAT NEARLY ALL OF THE INFRASTRUCTURE FOR ONWARD DELIVERY OF ADDITIONAL AMOUNTS OF SOVIET NATURAL GAS WITHIN GERMANY AND TO FRANCE IS IN PLACE. IN FACT, THE NEW DEAL CAN BE VIEWED AS A MEANS OF AMORTIZING A RATHER SUBSTANTIAL CAPITAL INVESTMENT WHICH WOULD OTHERWISE BE OF LITTLE USE. (THE LINE IS NOW AND COULD CONTINUE TO BE USED AS A BACKUP TO THE RUHRGAS LINE WHEN THE LATTER IS DOWN FOR SERVICING BUT WOULD NOT HAVE BEEN CONSTRUCTED FOR THIS PURPOSE.)

11. ITALIAN AND AUSTRIAN DELIVERIES -- RUHRGAS OFFICIALS TOLD US THAT IT IS PROBABLE THAT ANY GAS FROM THE NEW DEAL DESTINED FOR ITALY OR AUSTRIA WOULD BE SENT FROM THE CZECH GAS NET TO ITS DESTINATION VIA THE PRESENT CONNECTION WITH AUSTRIA AT BAUMGARTEN RATHER THAN VIA WAIDHAUS. THIS WOULD MEAN THAT GAS FOR THE FRG, FRANCE,

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BELGIUM, AND THE NETHERLANDS, TOTALLING ABOUT 25 BCM/YR.
OF THE 40 BCM/YR. INCLUDED IN THE NEW DEAL, WOULD BE
DELIVERED VIA WAIDHAUS. BURNS

END OF MESSAGE

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